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SIPDIS

DEPT FOR AF/EPS/HASTINGS,
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TREASURY FOR INTERNATIONAL DEBT POLICY/DONOVAN

SIPDIS

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TAGS: EFIN EAID KE
SUBJECT: Chinese Make Only Concessional Loans to Kenya

REF: State 106631

¶1. Summary: China has extended or agreed to extend to the GOK a total of Ksh3.54 billion (\$45.5 million) in concessional loans since 2002 for road and hospital projects. Non-concessional foreign borrowing by the GOK fell 5.5% from 2004 to 2005, and the GOK appears to be relying on domestic lending to finance its budget deficit. End Summary.

¶2. During President Kibaki's August 16-21, 2005 visit to China, the PRC agreed to provide Ksh3.2 billion (\$43.5 million) in concessional loans for developing rural power distribution and telecommunications networks. On January 23, 2006, Finance minister David Mwiraria signed the agreements with the Chinese Export-Import bank for the Ksh1.8 billion (\$24.5 million) loan to the Kenya Rural Telecommunications Development Project and the Ksh1.4 billion (\$19 million) for the Kenya Power Distribution System Modernization and Strengthening Project. The GOK will pay 2% interest on the telecommunications and power distribution project loans, but the other terms are not available.

¶3. The GOK also signed a 10-year loan with the Chinese government equivalent to Ksh50.9 million (US\$0.69 million) in May 2002 to upgrade Eldoret Hospital. Disbursement of two road sector loans equivalent to Ksh98.6 million (US\$1.34 million) started in 2002 and will end in 2018. Four more Chinese road sector loans equivalent to Ksh185 million (US\$2.5 million) will be disbursed between 2008 and ¶2023. These Chinese loans are interest-free, but the payment deadlines are unclear. All the road loans are used to fund contracts for Chinese construction companies to do the work.

¶4. The 2006 Economic Survey states that in 2005, the GOK's outstanding external debt fell 5.5% to Ksh157.7 billion (\$2.13 billion). France was the leading creditor with 53.6% of the debt. At least 80% of the total debt is loans from OECD countries. The remaining 20% are loans from Spain, Switzerland, Saudi Arabia, China, Kuwait and Korea totaling Ksh31.4 billion (US\$424 million), but no breakdown by country is available.

¶5. (U) Post is not aware of any recent non-concessional foreign borrowing by the GOK, which has preferred to borrow from local sources to cover its budget deficits in the last year or two.

Hoover